



Leicester  
City Council

## FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

19 March 2014

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### Internal Audit – 4<sup>th</sup> Quarter Operational Plan 2013-14

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#### Report of the Director of Finance

##### 1. Purpose of Report

###### 1.1. Finance Procedure Rule 7.2.1 states that:

*‘The Head of Audit shall prepare and agree with the Chief Finance Officer an Annual Audit Operational Plan which will set out the intended work of Internal Audit over the coming year. The plan shall be based on an objective assessment of need arising from an analysis of risk and shall be approved, but not directed, by the Audit Committee.’ (sic)*

###### 1.2. The Internal Audit Plan for 2013-14 has been prepared on the basis of broad areas of audit coverage rather than detailed lists of specific audits. It was approved by the Strategic Management and Operational Boards and by the Audit & Risk Committee (9 April 2013).

###### 1.3. In addition, the terms of reference of the Audit & Risk Committee include:

*‘To consider, challenge and approve (but not direct) Internal Audit’s strategy and plan and monitor performance on an annual basis.’*

###### 1.4. This report presents to the Committee the detailed operational audit plan for the fourth quarter of the financial year 2013-14. It has been agreed by the Strategic Management and Operational Boards and the Finance Management Team.

##### 2. Recommendations

###### 2.1. The Audit & Risk Committee is asked to note the Internal Audit operational plan for the fourth quarter of 2013-14, attached at Appendix A.

### 3. Report

- 3.1. Rather than presenting a detailed list of specific audits, the annual audit plan is grouped into areas of audit. The intention is that, given the continuing uncertainties the Council currently faces, the audit plan can be readily adjusted to reflect changes in risks and priorities while maintaining a sufficiency of audit coverage for each of the relevant areas.
- 3.2. The generic annual plan is then translated into detailed quarterly plans as the year progresses, setting out Internal Audit's intended work for each forthcoming quarter. These plans take into account emerging risks and requests for audit involvement alongside seasonal or other external factors that influence the timing of audit work. For example, school audits fall within the school terms and are chiefly planned to coincide with the new academic year, while other audits such as grant certifications are determined by the submission deadlines of the relevant funding agency.
- 3.3. The detailed operational plan for the fourth quarter of 2013-14 is attached at Appendix A. The following are worthy of note:
  - a) **Significant financial systems.** Coverage of the Council's main financial systems continues. These audits take as their starting point the key controls previously identified by the Council's external auditors. The intention is to conduct the audits in such a way that, should they wish to, KPMG as the Council's current external auditors can place reliance on this work when they undertake their opinion audit next year on the current year's financial statements. The intention in the fourth quarter is to repeat aspects of a similar programme of audit work that was done in the first quarter so as to avoid compressing the audit work and the pressure on the accountancy staff into the first quarter next year. A particular area of focus identified by KPMG is the supporting information for journal transactions on the main ledger.
  - b) **IT audit** in the fourth quarter will support the significant financial systems work outlined above by reviewing the essential general controls in the related IT applications. Again, this is with a view to reliance being placed upon our work by KPMG. The two other IT audits identified seek to assess the controls in place to manage areas of specific risk identified in consultation with the Head of Information Assurance.
  - c) **Schools** audit work continues in the fourth quarter, using the higher risk areas of the *Keeping Your Balance* financial guidance issued jointly by Ofsted and the Audit Commission.
  - d) The other audits scheduled for **Children's Services** are intended to provide sufficient independent assurance for the purposes of returns that are to be signed on the Council's behalf by the Director of Finance.

- e) **Contract audit.** Work will continue on the programme of contract audits looking at individual departments or service areas (Children's Services in Q4) plus follow-up of the previous audit of Housing Contracts.
  - f) Sound arrangements for good governance are crucial to the Council's operations and audit work under this broad theme continues. In particular, there will be coverage of the **Leicester Economic Action Plan 2012-2020** and aspects of the governance arrangements associated with the Council's new responsibilities for **Public Health**.
  - g) With the Executive decision to continue with the Council's registration under **EMAS (the Eco-Management and Audit Scheme)**, there has been a reinstatement of environmental audit work albeit in a modified way. The audit approach was reviewed by Carbon Board on 22 January; a significant change is the transfer of much of the EMAS audit work at specific sites from Internal Audit to the corporate Health & Safety Team. The aim is to streamline the audit process partly by means of merging audit work at specific sites with the health & safety inspections that also take place. Internal Audit retains responsibility for audit reviews of the overall system for EMAS plus thematic audits of areas of specific environmental risk.
- 3.4. It should be borne in mind that the quarterly plans refer to audits due to be started. Inevitably, they are not all completed within the quarter so there will be some residual work to complete audits started in previous quarters.
- 3.5. In identifying the audits for the fourth quarter plan, due regard was had to the generic areas of audit set out in the annual audit plan and the need to ensure sufficient coverage of each by the end of the financial year.
- 3.6. The move to quarterly planning is intended to align Internal Audit's work as closely as possible to current priorities. This allows what were previously 'commissioned' audits that fall within the remit of the statutory audit service to become fully part of the audit plan. The aim is then for Internal Audit to deliver the whole of this more flexible plan, subject to factors beyond Internal Audit's direct control. Having said that, urgent requirements may still arise that cannot wait until the next quarterly plan and have to be accommodated immediately on the basis of risk to the Council.
- 3.7. The process of using a generic annual audit plan supplemented by quarterly detailed audit plans has worked well so far in 2013-14 so it is being continued in 2014-15. Future audit plans will therefore be provided to the Audit & Risk Committee showing the actual audits that are planned to be carried out in the forthcoming quarter. These will be supplemented by progress reporting on the completion of the previous plans, with periodic update reports to the Committee.

## 4. Financial, Legal and other Implications

### 4.1. Financial Implications

There are no direct financial implications arising from this report. However, as a result of the work carried out there would be an expectation that implementing recommendations made by Internal Audit will improve the effectiveness, efficiency and economy of service delivery, with potential for consequential reductions in cost or improvements in quality.

### 4.2. Legal Implications

The provision of 'an adequate and effective internal audit' is a statutory requirement under regulation 6 of the Accounts & Audit Regulations 2011. The whole audit process is also intended to give assurance that all the activities audited have in place satisfactory arrangements to ensure compliance with relevant law and regulation applicable within the scope of the particular audit review.

### 4.3. Climate Change Implications

Other than the reference to EMAS audits (see table below), this report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council's climate change targets.

### 4.4. Other Implications

Other Implications	Yes/No	Paragraph/References within the Report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	Yes	3.3 (g): EMAS audit.
Crime and Disorder	Yes	Whole report and particularly 3.3(b) IT audit. Part of the purpose of Internal Audit is to give assurance on the controls in place to prevent fraud and other irregularity such as breach of data security.
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	
Risk Management	Yes	The whole report concerns the Internal Audit process, a main purpose of which is to give assurance to Directors and the Audit & Risk Committee that risks are being managed appropriately by the business.

**5. Background Papers – Local Government Act 1972**

5.1. Files held by Internal Audit.

**6. Consultations**

6.1. The audit plan has been prepared in consultation with the Strategic and Operational Directors; Finance Management Team (which includes all Heads of Finance) and the Head of Information Assurance.

**7. Report Author**

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Set out below are the individual audits expected to be started in the fourth quarter of 2013-14.

This is subject to:

- Client or process availability and readiness for audit
- Internal Audit resources
- Urgent commissioned work.

Audit	Lead department	Audit area	Planned days	Scope	Notes
Significant Financial Systems	Financial Services	Significant Financial Systems	110	Review of key controls as identified by the external auditor. This will include the main ledger system and interfaces with significant financial feeder systems. It is expected to cover, among other things, journals, bank reconciliations, suspense accounts and feeder account reconciliations.	This work will concentrate on the 2013-14 financial year and will be done in anticipation that KPMG may in due course seek to place reliance on it in their external audit of the Council's financial statements. The high block allocation of days under this heading derives from the range of systems potentially covered. It will be made up of various smaller items. The actual total amount may vary depending on requirements and availability of information.
IT General Controls	Information & Customer Access	IT Audit	25	Access controls and user management for the IT applications supporting the significant financial systems. This audit will chiefly consist of regularity-type audit testing to confirm that controls are still operating soundly.	As above: specific financial systems to be confirmed. This work may be reviewed by KPMG in connection with their external audit work.
Legacy Databases	Information & Customer Access	IT Audit	15	Review of data and security implications of old databases as well as software issues.	

**Appendix A**  
**Internal Audit 4<sup>th</sup> quarter operational plan 2013-14**

Audit	Lead department	Audit area	Planned days	Scope	Notes
Cautionary Contacts database	Information & Customer Access	IT Audit	10	Review of the security arrangements in place in the new database of high-risk contacts; to ensure that personal data is protected from unauthorised access or modification.	Cautionary Contacts is a database of service users and others who may be violent or present other risks to Council staff. It was formerly known as high-risk contacts. It is part of the Customer Data Integration (CDI) project, which is also within the Internal Audit plan, but the risks are such as to warrant specific audit review.
Schools financial audits (8 schools)	Children's Services	Schools	48	Routine audits of the financial management arrangements at eight schools against the higher-risk financial areas of the <i>Keeping Your Balance</i> good practice guidance issued by Ofsted and the Audit Commission.	
16-19 Bursary Fund	Children's Services	Schools	10	A review of the system of control in place to administer the 16-19 Bursary Fund payments to learners at a sample of maintained schools with sixth forms. This will assess whether the payments are made in accordance with Education Funding Agency (EFA) requirements.	This audit is intended to provide a sufficient level of assurance for the Director of Finance in signing the Council's grant return to the EFA.
Pupil Referral Units (PRUs)	Children's Services	Schools	25	Review of the financial management arrangements at a sample of PRUs using the criteria set out in the Schools Financial Value Standard (SFVS) and other EFA guidance.	Legislative changes were made to the funding and management of PRUs with effect from 1 April 2013. PRUs are also expected to submit their first SFVS returns by 31 March 2014.

**Appendix A**  
**Internal Audit 4<sup>th</sup> quarter operational plan 2013-14**

Audit	Lead department	Audit area	Planned days	Scope	Notes
High-Needs Funding	Children's Services	Schools	25	To provide sufficient assurance for the DoF over the funding arrangements of high-needs pupils for 2013-14, as defined in the EFA paper <i>Assurance Framework for High Needs Funding 2013-14</i> .	Local authorities are required to submit annual Dedicated Schools Grant (DSG) returns and 16-19 grant returns to the EFA.
Housing Technical Services Contracts – follow-up	Housing	Contract audit	15	Follow-up review of recommendations made in the Internal Audit report on Housing Technical Services contracts, issued in July 2013.	The previous audit gave a little or no assurance on the strength of controls in operation at the time. This follow-up the audit will establish whether sound arrangements are now in place.
Children's Services Department Contracts	Children's Services	Contract audit	25	A review of contract arrangements within the Children's Services Department, with particular emphasis on contract management.	This is a major service area; there is a need to ensure the arrangements for entering into and managing contracts are sound.
Car Parks Income	City Development & Neighbourhoods	Cash audits and establishments	25	The review will assess the processes in place to ensure the income collected through the Council's car parks is completely and promptly banked and accurately accounted for.	A number of recent changes have taken place; parking enforcement was brought in-house from 1 February 2013 and there have been changes in management. Over £1.2m income was collected from car parks in 2012-13; robust controls are essential.



Audit	Lead department	Audit area	Planned days	Scope	Notes
Leicester Economic Action Plan 2012-2020	City Development & Neighbourhoods	Corporate governance	10	The <i>Leicester Economic Action Plan 2012-2020</i> is a major statement of the City Mayor's aspirations for development of the city's economic prosperity. It identifies how the City Council and partner organisations including the Leicester & Leicestershire Enterprise Partnership (LLEP) will promote investment in the city. Effective governance arrangements and performance and project management processes are essential for its success. Provision is therefore made in the audit plan for an overview audit.	A high-level review of the arrangements for governance, performance management and project assurance.
Public Health Transition	Adult Social Care, Health & Housing	Public Health Transition Corporate governance	10	It is essential that the associated governance and accountability arrangements are robust so as to protect the interests of all parties in this important area of public policy.	Under a national programme, certain public health responsibilities transferred from the NHS to the City Council on 1 April 2013.
Eco-Management and Audit Scheme (EMAS)	City Development & Neighbourhoods	Environmental Audit	40	The scope of this work was determined in consultation with Carbon Board in January 2014. It will include: Level 1 audit: Overview of EMAS system. Level 2 audit: Thematic audit of the handling of environmental complaints.	Following the corporate review of EMAS, the role of Internal Audit is being revised. The site-specific EMAS audit work at locations such as depots, parks and leisure centres is to be undertaken by the Council's Health & Safety (H&S) Team alongside their H&S inspections of Council premises. Schools no longer fall within the Council's EMAS accreditation.

**Appendix A**  
**Internal Audit 4<sup>th</sup> quarter operational plan 2013-14**

Audit	Lead department	Audit area	Planned days	Scope	Notes
CIPFA in the Midlands - audit of accounts	External (on behalf of Director of Finance)	Honorary audits	5	<p>An annual honorary audit of the accounts for CIPFA in the Midlands, to state whether the accounts give a true and fair view of the financial position of the organisation.</p> <p>This audit is provided by Internal Audit as part of the Council's support for the regional organisation of CIPFA as our professional institute.</p>	
		TOTAL	398		